

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2011 AND 2010

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA

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CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
Kent Wenck	Chairman	2012
Mike Fox	Treasurer	2014
Mike O'Neal	Secretary	2012
Neal Rogge	Board Member	2014
Laverne Birch	Board Member	2012
Brian Lauck	Airport Director	2012
Karen Aduddell	Clerk	Indefinite

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority, as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Cherokee Aviation Authority as of June 30, 2011 and 2010, and the changes in its cash basis financial position for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2012 on our consideration of the Cherokee Aviation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

BURKHARDT & DAWSON, CPA's

Burkhardt & Dawson, CPA's
Certified Public Accountants

January 9, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee Aviation Authority provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Cherokee Aviation Authority is for the fiscal years ended June 30, 2011 and 2010. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- * The Authority's operating receipts decreased 10% or approximately \$24,000, from fiscal 2010 to fiscal 2011.
- * The Authority's operating disbursements decreased 31%, or approximately \$63,000, from fiscal 2010 to fiscal 2011.
- * Cash basis net assets increased 25%, or approximately \$56,000, from June 30, 2010 to June 30, 2011.

USING THIS ANNUAL REPORT

The Authority has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Authority's financial activities.

- The Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets present information on the Authority's operating receipts and disbursements, non-operating receipts and disbursements and whether the Authority's cash basis financial position has improved or deteriorated as a result of the years' activities.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statements is to present the receipts received by the Authority and the disbursements paid by the Authority, both operating and non-operating. The statements also present fiscal snapshots of the cash balance at year end. Over time, readers of the financial statements are able to determine the Authority's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are received for hangar rentals, fuel sales, and tax revenues of the Authority. Operating disbursements are disbursements paid to operate the airport. Non-operating receipts and disbursements are for interest on investments, grant receipts, insurance proceeds, equipment purchases and capital projects. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 is presented below:

	CHANGES IN CASH BASIS NET ASSETS	
	2011	2010
Operating Receipts:		
Tax Revenues	\$ 82,937	\$ 79,010
Hangar Rent	23,017	20,354
Fuel Sales	98,805	129,560
Other Income	4,354	4,297
TOTAL OPERATING RECEIPTS	<u>\$209,113</u>	<u>\$ 233,221</u>
Operating Disbursements:		
Fuel Purchased for Resale	\$ 63,807	\$ 124,273
Contract Services Expense	33,319	32,416
Others	45,730	49,476
TOTAL OPERATING DISBURSEMENTS	<u>\$142,856</u>	<u>\$ 206,165</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 66,257</u>	<u>\$ 27,056</u>
Non-Operating Receipts (Disbursements):		
Interest on Investments	\$ 4,219	\$ 5,052
Grant Receipts	41,246	95,672
Sale of Equipment	0	1,500
Insurance Proceeds from Hail Damage	10,079	0
Capital Improvements and Related Engineering Fees	(55,275)	(61,445)
Equipment Purchases	(10,090)	(50,443)
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ (9,821)</u>	<u>\$ (9,664)</u>
NET CHANGE IN CASH BASIS NET ASSETS	<u>\$ 56,436</u>	<u>\$ 17,392</u>
CASH BASIS NET ASSETS BEGINNING OF YEAR	<u>226,672</u>	<u>209,280</u>
CASH BASIS NET ASSETS END OF YEAR	<u>\$283,108</u>	<u>\$ 226,672</u>
Cash Basis Net Assets:		
Restricted for: Capital Reserve Fund	\$206,027	\$ 172,065
Unrestricted	<u>77,081</u>	<u>54,607</u>
TOTAL CASH BASIS NET ASSETS	<u>\$283,108</u>	<u>\$ 226,672</u>

In fiscal year 2011, operating receipts decreased by \$24,108, or 10%, from fiscal year 2010. The decrease was primarily a result of a decrease in fuel sales in fiscal year 2011. In fiscal year 2011, operating disbursements decreased by \$63,309, or 31%, from fiscal year 2010. The decrease in disbursements was primarily due to decreases in fuel purchases.

A portion of the Authority's net assets of \$206,027 (73%), is restricted as of June 30, 2011 for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining net assets, \$77,081 (27%), are unrestricted net assets which can be used to meet the Authority's obligations as they come due. Restricted net assets increased \$33,962, or (20%) during the year. The increase was due to additional funds set aside for payment of future capital improvements. Unrestricted net assets increased \$22,474, or (41%), during the year due to fewer capital improvements and equipment purchases.

LONG TERM DEBT

At June 30, 2011 and June 30, 2010, the Authority had no long term debt outstanding.

ECONOMIC FACTORS

The financial position of the Authority improved in the current fiscal year as fuel facility upgrade and terminal building rehabilitation grant funded projects were completed. Fuel purchases and sales also decreased. The current condition of the economy in the state continues to be a concern for Authority officials. Some of the realities that may potentially become challenges for the Authority to meet are:

- * Facilities require constant maintenance and upkeep.
- * Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Authority anticipates the current fiscal year will be one of transition as it continues to make important decisions regarding the future expansion plans of the Airport.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee Aviation Authority, 1201 South Second Street, Cherokee, Iowa 51012.

Financial Statements

CHEROKEE AVIATION AUTHORITY
 CHEROKEE, IOWA
 STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BASIS NET ASSETS
 YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING RECEIPTS:		
Tax Revenues	\$ 82,937	\$ 79,010
Hangar Rent	23,017	20,354
Fuel Sales	98,805	129,560
Other Income	<u>4,354</u>	<u>4,297</u>
TOTAL OPERATING RECEIPTS	\$ 209,113	\$ 233,221
OPERATING DISBURSEMENTS:		
Fuel Purchased for Resale	\$ 63,807	\$ 124,273
Bank Charges and Check Printing	34	47
Miscellaneous Fees	501	455
Legal Fees	451	53
Audit Fees	2,675	2,550
Dues, Memberships	320	320
Licenses and Permits	18	0
Travel and Conference Fees	418	526
Real Estate Taxes	0	3,282
Lease Expense	100	100
Grounds and Buildings Maintenance	7,000	4,065
Fuel Tank Maintenance	1,041	1,099
NDB Maintenance	0	135
Contract Service Expense	33,319	32,416
Fuel Commissions	6,235	9,086
Insurance Expense	10,588	10,176
Fuel for Equipment	2,737	2,896
Equipment Maintenance	6,295	6,974
Utilities - Gas	798	919
Electricity	3,741	3,623
Telephone	1,343	1,168
Water	347	438
Internet	518	474
Advertising	0	16
Office Supplies	11	47
Miscellaneous Supplies	205	191
Postage	202	230
Other Expenses	<u>152</u>	<u>606</u>
TOTAL OPERATING DISBURSEMENTS	\$ 142,856	\$ 206,165
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	\$ 66,257	\$ 27,056

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):		
Interest on Investments	\$ 4,219	\$ 5,052
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NET INCREASE IN CASH BASIS NET ASSETS	\$ 56,436	\$ 17,392
CASH BASIS NET ASSETS - BEGINNING OF YEAR	<u>226,672</u>	<u>209,280</u>
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CASH BASIS NET ASSETS:		
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TOTAL CASH BASIS NET ASSETS	<u>\$ 283,108</u>	<u>\$ 226,672</u>

See notes to financial statement

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Cherokee Aviation Authority was formed in 2003 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Authority is to operate and maintain an airport and hangars in Cherokee County.

The governing body of the Authority is a Board of Directors. The City of Cherokee appoints two Board members who shall be residents of the City of Cherokee, Iowa; and, Cherokee County appoints two Board members who shall be residents of the unincorporated territory of Cherokee County, Iowa. One member of the Board shall be a resident of the unincorporated territory of Cherokee County and selected by the Cherokee Aviation Authority Board with approval by the Board of Supervisors and the Cherokee City Council.

A. REPORTING ENTITY - For financial reporting purposes, the Cherokee Aviation Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. BASIS OF PRESENTATION - The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

C. BASIS OF ACCOUNTING - Cherokee Aviation Authority maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Authority are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Authority in accordance with U.S. generally accepted accounting principles.

D. RESTRICTED FUNDS - Restricted funds are set aside for payment of future capital improvements. The amended agreement with the City of Cherokee and Cherokee County requires 40% of the tax levy to be put in a capital reserve fund. The original agreement required 60%, but this was amended to 40% per a September 14, 2004 agreement for a two year period. As of March 2007, this amendment will be effective for the life of the 28E Agreement. At June 30, 2011 and 2010 the restricted funds accounts were in compliance.

E. DATE OF MANAGEMENT'S REVIEW - Management has evaluated subsequent events through January 9, 2012, the date which the financial statements were issued.

NOTE 2 - CASH AND INVESTMENTS:

The Authority's deposits in banks at June 30, 2011 and 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011 and 2010 the Authority had certificates of deposit.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - RISK MANAGEMENT:

The Authority is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Authority's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Authority's contributions to the Pool for the years ended June 30, 2011 and 2010 were \$3,878 and \$3,428, respectively.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - RISK MANAGEMENT - CONTINUED:

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of \$1,500,000, pollution liability on the underground tank(s) in the amount of \$1,000,000, and an employee blanket crime bond in the amount of \$50,000. The Authority assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 4 - AIRPORT OPERATOR CONTRACT:

The Authority has entered into a contract with a manager for the operation of the airport. Under the contract, the contractor is to operate the airport site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools and equipment necessary for operation. For these services, the operator was paid \$30,900 and \$30,150 during the years ended June 30, 2011 and 2010, respectively, plus commissions based on fuel sales.

NOTE 5 - RELATED PARTIES:

The clerk and the board chairman are siblings.

Brian Lauck, Airport Director and owner of Lauck Aviation, routinely purchases fuel from the Authority.

NOTE 6 - RENT INCOME:

The Authority has a verbal operating lease on 72 acres of farm ground with an unrelated party. The lease agreement is negotiated annually with the annual payment being made in the fall. One stipulation is that the tenant is required to plant low crop. The cost of this land is recorded by the City of Cherokee, since they own the land.

Land rental income resulted in income of \$4,000 and \$4,000, for the years ended June 30, 2011 and 2010, respectively.

NOTE 7 - SUBSEQUENT EVENTS:

The Authority signed a contract for \$110,724 in August 2011 for the Drainage Improvement and Obstruction Removal Project. No work had been started or paid at June 30, 2011. The maximum reimbursement from the Federal Aviation Administration will be 95% of the allowable project costs.

In September 2011, the Authority accepted a bid of \$201,611 to replace all roofs at the airport. Insurance proceeds on the claim for hail damage to the hangar roofs are anticipated to cover the cost of roof replacements.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority, as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated January 9, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Cherokee Aviation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Aviation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses, have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Cherokee Aviation Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (AA) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Aviation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the years ended June 30, 2011 and 2010 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Authority. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee Aviation Authority's written responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Authority's responses, we did not audit Cherokee Aviation Authority's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Cherokee Aviation Authority and other parties to whom the Authority may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Aviation Authority during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's

Burkhardt & Dawson, CPAs
Certified Public Accountants

January 9, 2012

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

MATERIAL WEAKNESSES:

- (A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over charge accounts, including billing, deposit preparation, posting transactions to accounting records and reconciling payments to receivable records.

Recommendation - The Authority should designate a member of the Board to provide additional control through review of financial transactions to help ensure accounts receivable charges and payments on account are properly recorded and deposited intact.

Response - All bills presented for payment are approved by the Authority and all checks for payments are signed by an Authority officer. Monthly bank statements are reviewed at each monthly board meeting and initialed by a designated officer. The Authority members also review accounts receivable each month and a monthly balance sheet of accounts.

Conclusion - Response accepted.

- (B) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the members of the Cherokee Airport Authority to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

(B) Financial Reporting - Continued:

Response - Management will consider obtaining additional knowledge regarding the basis of accounting.

Conclusion - Response accepted.

SIGNIFICANT DEFICIENCY:

(AA) Accounting - The sales commissions and inventory spreadsheets were not correctly totaled.

Recommendation - The Authority needs accurate accounting records during the year. Formulas should be reviewed on spreadsheets to verify they are set up correctly.

Response - The Authority will review formulas on spreadsheets to verify that they are set up correctly.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Statutory Reporting:

- (1) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (2) Travel Expense - No disbursements of the Authority's money for travel expenses of spouses of Authority officials or employees were noted.
- (3) Commission Minutes - No transactions were found that we believe should have been approved in the Authority minutes but were not. However, the minutes, including the schedule of bills allowed, were not published as required by Chapter 28E.6(3) of the Code of Iowa.

Recommendation - The Authority should ensure the minutes are published as required.

Response - The Authority meeting minutes and approved expenses are published on the City of Cherokee website monthly for public view. A signed copy of all minutes and bills is kept at the City Hall for public view. The Authority members feel that the cost of publishing the minutes in the local newspaper would be an excessive cost.

Conclusion - Response accepted.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Other Findings Related to Statutory Reporting - Continued:

- (4) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Authority's investment policy were noted. The Authority has adopted a depository resolution at June 30, 2011.